



Patrick W. Henning, Director
December 10, 2009
22M:345:jdt:9120



Arnold Schwarzenegger
Governor

Mr. Marco Lizarraga, Acting Executive Director
La Cooperativa Campesina de California
7801 Folsom Blvd., Suite 365
Sacramento, CA 95826

Dear Mr. Lizarraga:

WORKFORCE INVESTMENT ACT
25-PERCENT PROJECT REVIEW
STATUS OF UNRESOLVED FINDINGS
PROGRAM YEAR 2008-09

This is to inform you of the status of the findings assigned Corrective Action Tracking System (CATS) numbers 90195, 90197, 90198, 90200, 90201, 90202, 90203, and 90204. We reported these findings to La Cooperativa Campesina de California (La Coop) in our Workforce Investment Act (WIA) 25-Percent Final Monitoring Report dated September 24, 2009.

We received your response to the final report noted above on October 19, 2009, a revision of the La Coop Policy and Procedures Manual on November 5, 2009, and reviewed the comments and attached documentation in preparation of this letter. Based on our review, we consider your proposed corrective action sufficient to resolve CATS number 90200, however, the finding will remain open until we verify your successful implementation of your corrective actions during a future onsite review. Conversely, we consider CATS numbers 90195, 90197, 90198, 90201, 90202, 90203, and 90204 unresolved.

Our findings, recommendations, La Coop's proposed corrective actions, and the basis for our conclusions are specified below.

CATS Number 90195: We found that La Coop does not maintain a procedures manual that provides instructions for the completion of required financial management practices. Specifically, there are no written procedures or instructions for the completion of routine fiscal practices such as monthly expenditure reports, cash requests, cost allocations, maintenance of the chart of accounts and general ledger, collecting subrecipient single audits and audit resolution, and carrying out various internal controls among other critical fiscal practices. We also found that, in many

instances, there was disagreement among La Coop staff in relation to how La Coop's various internal practices are implemented. We recommended that La Coop provide the Compliance Review Office (CRO) with a corrective action plan (CAP) including a timeline for the development of a policy and procedures manual (P&PM) that will sustain the operation of La Coop's financial management system in the event key staff are absent to carry out critical fiscal practices. In addition, we recommended that La Coop provide a copy of the P&PM to CRO.

A copy of the P&PM was provided with La Coop's October 19, 2009 response to the Final Report and a revision of the P&PM was provided to EDD on November 5, 2009. Based on our review of La Coop's Financial Management P&PM, we found that it addressed the fiscal practices addressed within the monitoring report and other critical procedures related to La Coop's financial management system: WIA cost classification, cash receipts, grant compliance, property management, purchases, reconciliation, and closeouts. However, we found that the Cost Allocation Chapter is unclear and insufficient because it alludes to potentially two methods of distributing shared costs: staff time distribution and direct programmatic expenditures and fails to describe any of the steps or spreadsheets that are developed each month to analyze and determine the costs to be allocated to each La Coop funding source.

Furthermore, we found that the P&PM did not adequately address issues specified in the Final Monitoring Report pertaining to internal controls and signatory authority. The specifics of these discrepancies are addressed below in CATS Numbers 90197 and 90198. Based on La Coop's response, we cannot resolve this issue at this time. La Coop's compliance with the recommended corrective action cannot be determined until it adequately revises its P&PM to address the cost allocation, internal control and signatory authority issues and La Coop submits a copy to CRO for its review. We recommend that La Coop revise its P&PM to correct the deficiencies referenced above and provide a copy to CRO. Until then, this finding remains open.

CATS Number 90197: We found several questionable practices in relation to La Coop's internal controls. Specifically, we observed the following:

- The Executive Director is the only person who reviews La Coop's bank account statement.
- The Executive Director is allowed to sign checks to himself.
- A fiscal staff is able to purchase supplies without any review or approval to ensure the purchases are appropriate.

- Subcontractor invoices are processed for payment without the Operations Manager's signature. Although the invoice designates an area for the Operation Manager's signature, this process is ignored.
- There is no consistency in the approval of the Executive Director's timesheet. At times, the Operations Manager will sign (approve) the Executive Director's timesheet and other times, no approval is obtained.

We recommended that La Coop provide CRO with a CAP including a timeline to establish effective internal controls that will ensure that effective checks and balances and segregated duties are routinely conducted in the implementation of La Coop's financial management practices. In addition, we recommended that La Coop develop written internal control procedures that are communicated to all appropriate La Coop staff and a copy provided to CRO when it is completed.

In its response to the draft report, La Coop stated that it will address the issues of internal controls in the development of its Financial Management P&PM. La Coop stated that its internal control procedures will include a proper system of checks and balances and that it would be finalized by the Board of Directors November 16, 2009.

In its response to the Final Report, La Coop's Financial Management P&PM appropriately addresses the division of duties shared by La Coop's staff and the staff of its subcontracted CPA firm. Specific procedures have also been established to ensure that the Executive Director is not the only person who reviews La Coop's bank account statement and to ensure prior approval is provided before the purchase of office supplies. Finally, all staff with a role in the management of La Coop's financial operations are required to follow the procedures specified within the P&PM.

However, no specific description was provided as to who would perform the various steps of each fiscal procedure: i.e., processing checks, payroll, and procurements. As a result, we cannot determine if one staff has extraordinary responsibilities in relation to the completion of any of these fiscal practices. In addition, since La Coop now works with a new CPA firm, further revisions of the P&PM must be completed to reflect procedural changes and separation of duties. In view of these issues, it is not clear if effective checks and balances and segregated duties will be routinely implemented.

In addition, we found that the Payroll Chapter of the P&PM authorizes La Coop's Operations Manager or Fiscal Officer to sign the Executive Director's timesheet. Since both of these staff report directly to the Executive Director, it would be more appropriate for the Executive Director's timesheet to be signed by the Chairperson or Treasurer of the Board of Directors. Furthermore, no procedures were found to ensure that the Executive Director cannot write checks to himself, and/or to ensure that the Operations Manager signs and approves subcontract invoices for payment. Finally, while the

P&PM requires all staff with a role in the management of La Coop's financial operations to follow the P&PM's procedures, it does not state how La Coop's fiscal staff will be informed about the contents and requirements of the P&PM.

Based on La Coop's response, we cannot resolve this issue at this time. La Coop's compliance with the recommended corrective action cannot be determined until it adequately revises its P&PM to address all of the internal control and signatory authority issues specified in relation to this CATS number and below under CATS number 90198 and it submits a copy to CRO for its review. Until then, this finding will remain open.

CATS Number 90198: We found that La Coop's Fiscal Officer improperly signed checks for payments to herself and to a contractor. Only three signatories (Director, Operations Manager, and Government Relations Coordinator) are allowed to sign for checks and there are no provisions to delegate signatory authority to anyone else. We found that eight of the 20 check payments sampled contained forged signatures by the Fiscal Officer. We found that the Fiscal Officer forged the signature of the Government Relations Coordinator on seven checks issued to the Fiscal Officer and one check issued to the Center for Employment Training (CET). Of the seven checks made payable to the Fiscal Officer:

- Five checks were issued for travel expenses in the amounts of \$416.50, \$376, \$429.25, \$372.50, and \$416.50.
- One check was issued for reimbursement for office supplies purchased from Costco combined with mileage reimbursement for \$412.50.
- One check was issued for reimbursement for office supplies purchased from Office Depot for \$362.

The remaining check signed by the Fiscal officer was issued to CET for \$15,866.89.

The total questioned costs amount to \$18,652.14. Since the Fiscal Officer stated that she forged signatures for an indefinite number of years, it is not clear how long the practice was conducted and the extent of the potential additional questioned costs. In all instances above, we found insufficient documentation to substantiate that the eight WIA expenditures were for the purpose identified in the records. Until such time that adequate documentation is submitted, these costs will be considered questionable and potentially disallowed. We recommended that La Coop provide CRO with a CAP including a timeline to:

- Investigate and determine if the eight check payments are for allowable WIA costs and provide CRO with any supporting documentation and analysis of its determination and the actions taken for payments not supportable for charge to WIA.

- Review all checks written by La Coop over the last six years.
- Determine which checks may contain questionable signatures.
- For checks with questionable signatures, review any supporting information to determine if payments were for allowable WIA purposes.
- Reverse all charges that are unsupported and charge costs to a nonfederal source.
- Document the results and actions taken to account for all costs charged to WIA grants.
- Provide a report of the results to the CRO.
- Establish effective signatory authority policy and procedures that will ensure only authorized signatories sign WIA financial transactions and checks.

In its response to the Draft Report, La Coop stated that it is currently reviewing the eight check payments identified above and all checks written for the past six years. A full report of this review will be ready by November 6, 2009. In its response to the Final Report, La Coop stated that further investigations are currently being undertaken by its accounting firm and staff. The matter has been brought to the Sacramento Police Department's attention and investigation is ongoing with the agency. La Coop's subcontracted CPA firm conducted an internal review of the checks issued during PYs 2003-09 and identified all checks with forged signatures.

La Coop provided a summary sheet and spreadsheets of checks written during PYs 2004-09 that were determined to be forged by its Fiscal Officer, Trudy Zimmerman. According to La Coop's summary sheet, the first set of spreadsheets identifies checks that were executed for illegitimate purposes. These spreadsheets included checks written for Ms. Zimmerman's travel reimbursements which La Coop determined were all false charges. La Coop determined that the total of these checks amounted to \$58,552.66.

In addition, the spreadsheets included checks written for office supplies using Costco and American Express charge cards which La Coop determined were both legitimate and illegitimate charges. This set of spreadsheets identified the total amount of the billings and the amount not authorized per receipts. La Coop stated that the total of the Costco and American Express office supplies that were not authorized per receipts

amounted to \$17,201.54. As a result of the internal investigations of the fraudulent practices of its Fiscal Officer during PYs 2004-09, La Coop determined that \$75,754.42 was used for illegitimate purposes.

Seven of the eight questioned costs identified in our observations were included within the above referenced spreadsheets of the checks written by Ms. Zimmerman. The one exception was the check written to CET for \$15,866.89 which is included and addressed below in another spreadsheet of checks that La Coop determined to be forged but the funds, according to La Coop's internal investigation, were used for legitimate purposes.

La Coop provided a spreadsheet entitled, Fraudulent Activity by Trudy Zimmerman, which provides a breakdown of how a total of \$75,417.72 impacted each of La Coop's funding sources during PYs 2004-09. However, this amount is slightly different (minus \$336.48) from the grand total of illegitimate cost (\$75,754.42) identified above. Nevertheless, the breakout identifies \$13,690.63 that impacted Department of Labor (DOL) grant awards and \$43,300.64 that impacted Employment Development Department (EDD) grant awards. The remainder (\$18,426.45) of the \$75,417.72 impacted other La Coop funding sources and unrestricted funds. La Coop also provided spreadsheets that isolate the losses by specific contracts for its EDD and DOL grant awards.

Finally, La Coop provided spreadsheets that identify checks written with a forged signature that was issued to vendors and subrecipients that all appear to be for legitimate purposes. The eighth questioned cost observed during our onsite review is a check issued to CET in the amount of \$15,866.89, and it is included among the checks within the two spreadsheets.

Based on La Coop's response, we cannot resolve this issue at this time. In view of the signatory authority issues raised in this finding and in CATS Number 90197 above, a more in depth policy and procedure should be included in the P&PM than what is briefly stated in the first chapter. In addition, although La Coop identified approximately \$75,417 in fraudulent activity, of which \$43,300 is allocated to funds awarded by EDD, additional questioned costs have been identified in subsequent follow-up visits conducted by EDD staff. Therefore, this issue remains open while the State works with La Coop to finalize the additional questioned costs.

CATS Number 90200: We found that La Coop does not conduct onsite fiscal and procurement monitoring reviews of its subrecipients. Specifically, while La Coop established fiscal monitoring policy and procedures for conducting onsite fiscal monitoring reviews at its five subrecipient organizations, it actually conducts only program monitoring reviews. As a result, we find that La Coop cannot ensure that its subcontractors have appropriately charged its costs to WIA. We recommended that La

Coop provide CRO with a CAP including a timeline for conducting onsite fiscal and procurement monitoring of its subrecipient organizations during PY 2009-10.

In its response to the Draft Report, La Coop stated that it will ensure that its staff receives training in order to conduct onsite fiscal monitoring reviews of its subrecipient organizations. La Coop is currently receiving training from the Department of Labor on subrecipient fiscal monitoring and anticipates that the training will be completed by November 6, 2009. La Coop stated that it will schedule fiscal monitoring visits with its subrecipients within the first month of the program year. We concluded that La Coop needs to provide a CAP including a timeline for conducting onsite fiscal and procurements monitoring of its subrecipient organizations during PY 2009-10.

In its response to the Final Report, La Coop stated that it has developed a fiscal and procurement monitoring guide using EDD's Monitoring Guide as a model. A copy of La Coop's Guide is enclosed within its Financial Management P&PM. In addition, La Coop also provided a tentative monitoring schedule for oversight of its subrecipients between the months of January and April 2010. Based on La Coop's response, we consider its proposed corrective action sufficient to resolve this finding. However, the finding will remain open until we verify the successful implementation of its corrective actions during a future onsite review.

CATS Number 90201: We found that La Coop did not follow-up to resolve issues identified within a Management Letter included in the single audit report for a subrecipient. Specifically, the PY 2007-08 Single Audit Report of Central Valley Occupational Center, Inc. (CVOC) contained a Management Letter from the audit company identifying internal controls and operational efficiencies that needed to be resolved before the PY 2008-09 audit is conducted. The internal control issue concerns the distribution of payroll whereby payroll checks are distributed by the same employee responsible for the preparation of payroll processing. This issue directly impacts the expenditure of WIA funds, yet La Coop has not initiated any action to resolve this issue. We recommended that La Coop provide CRO with a CAP including a timeline for the resolution of the specified internal controls and operational efficiencies of its subcontractor, CVOC.

In its response to the draft report, La Coop stated that it will contact CVOC to follow-up on the resolution of the specified internal controls and operational efficiencies mentioned in CVOC's PY 2007-08 Single Audit Report and it expects to have this issue resolved by September 25, 2009. In a September 9, 2009 email, La Coop stated that the Management Letter and audit for PY 2007-08 were approved by the CVOC Board of Directors at its February 26, 2009 meeting. On February 28, 2009, CVOC instituted corrective action with the development of a new Payroll Separation of Duties Matrix which was incorporated within CVOC's Financial Policy and Procedures Manual. The matrix clearly indicates that the Accountant II processes the payroll and the Accountant I

distributes the payroll checks. According to La Coop, this issue was resolved by CVOC almost immediately after it was recommended by the auditor.

The State concluded that La Coop did not provide documentation that it was aware of the issues or that corrective action was taken. Although, the matrix appears to outline a clear separation of duties for processing payroll and distribution of payroll checks, we cannot close this issue until we verify, during a future onsite visit, that La Coop has conducted the necessary follow-up activities to ensure CVOC's successful implementation of its stated corrective action. In addition, we recommended that La Coop establish an audit resolution file to document its resolution process as described in its audit resolution procedures.

In its response to the Final Report, La Coop stated that it has conducted an onsite verification to ensure successful implementation of the corrective actions taken by CVOC regarding its internal controls and operational efficiencies. In addition, La Coop provided a copy of an October 14, 2009 La Coop letter that was sent to CVOC addressing the observations of the Management Letter, the corrective actions taken, and La Coop's conclusion that the issue is closed as a result of its onsite verification of CVOC's corrective action. Finally, La Coop provided appropriate pages of CVOC's Accounting and Financial P&PM reflecting the necessary revisions requested in the Management Letter.

The State concludes that La Coop has technically followed-up to resolve the issues addressed in the Management Letter. However, La Coop did not follow the steps specified within its Financial Management P&PM or State and Federal requirements related to the resolution of audit findings. No documentation was provided to substantiate that La Coop established an audit file, completed an audit control log, or issued appropriate initial and final determination letters. Based on La Coop's response, we consider this finding unresolved. While La Coop has technically resolved the primary issue of this finding and conducted the necessary follow-up to close the issues addressed in the Management Letter, we continue to recommend that La Coop follow the individual steps specified within its P&PM for the resolution of all future audit issues. Therefore, we cannot close this issue until we verify, during a future onsite visit, La Coop's successful implementation of its stated corrective action. Until then, this finding will remain open.

CATS Number 90202: We found that La Coop failed to document the cost or price analysis for a sample of six small purchase procurements (payroll services and computer equipment). In addition, we found that La Coop may have used the wrong method of procurement for one of the small purchases. Each of the small purchases is noted below:

- La Coop paid approximately \$26,683 for a 12-month period to Staff Resources, Inc. for payroll services for La Coop staff and WIA participants. This amount

exceeds the \$25,000 threshold whereby a Request for Quotes/Request for Proposals (RFQ/RFP) may be required according to La Coop's procurement P&Ps. However, no RFQ/RFP process was conducted and no documentation was provided to substantiate that an RFQ/RFP was not necessary. Furthermore, no documentation was maintained of the bids/quotes of competing vendors. Only one email was provided of a contact with HRTOGO. While a cost comparison was made with the previous payroll services provider, it was not documented.

- La Coop purchased the following computer equipment during 2008 for which the Fiscal Officer stated that other organizations were contacted, but no documentation was kept of these contacts and no documentation was provided of a cost/price analysis:
 - One Computer projector for \$857.99.
 - Seven computers and three monitors for \$6,814.33.
 - One 20 inch monitor for \$204.72.
 - A computer and monitor for \$2,657.02, and
 - Two 20 inch monitors were purchased for \$822.99.

Finally, La Coop's P&Ps that require only one price quote for purchases between \$0 and \$24,999, fails to comply with 29 CFR Part 95.45 which states that some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. One quote does not provide for any comparison or analysis to determine the reasonableness of a purchase. We recommended that La Coop provide CRO with a CAP including a timeline to ensure that adequate documentation is maintained for all future small purchase procurement transactions to substantiate that all are conducted on the basis of free and open competition. In addition, we recommended that La Coop complete and submit a revision of its policy and procedures to CRO that will ensure an appropriate number of price quotes are obtained to substantiate that all small purchases are competitively procured.

In its response to the Draft Report, La Coop stated that it will revise its Policy and Procedures (P&P) to comply with the requirements stated in 29 CFR Part 95.45 to ensure that some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. La Coop anticipates implementation by September 25, 2009 and also stated that a copy of the revised P&P will be submitted to CRO. While La Coop provided a CAP for the revision of its procurement P&P to complete and document a cost/price analysis, as appropriate, the State concluded that La Coop did not address the number of price quotations needed for a comparison or analysis of the reasonableness of the purchase. Specifically, a minimum of two price quotations are needed for the purpose of conducting a comparison.

In its response to the Final Report, La Coop stated that it has revised its procurement P&P accordingly and provided a copy to CRO for its review. We found that the Procurement Chapter of the Financial Management P&PM has been revised to reflect that at least two price quotes are now required for small purchase transactions between \$0 and \$24,999. However, La Coop did not provide a CAP including a timeline to ensure that adequate documentation is maintained for all future small purchase procurement transactions to substantiate that all are conducted on the basis of free and open competition. Consequently, we continue to recommend that La Coop provide CRO a CAP including a timeline to ensure that adequate documentation is maintained for all future small purchase procurement transactions to substantiate that all are conducted on the basis of free and open competition. As a result, this issue remains open.

CATS Number 90203: We found that La Coop's subcontracts with Employment Training Resources (governmental), Proteus (non-profit), and CHDC (non-profit) do not include the required contract provisions for compliance with the Equal Employment Opportunity and Clean Air and Clean Water Acts for contracts over \$100,000. In addition, we found that the subcontracts with Proteus and CHCD did not contain the contract provision related to debarment and suspension. A similar contract provision observation was made during the PY 2004-05 Fiscal and Procurement Onsite Review in relation to compliance with the nondiscrimination provision noted above. We recommended that La Coop provide CRO with a CAP including a timeline to revise its general provisions for subcontracts with governmental and nongovernmental entities to specify appropriate references required for nondiscrimination, debarment and suspension, and Clean Air and Clean Water Act provisions. We further recommended that La Coop provide a copy of the revised general provision boilerplate to CRO when it is completed and a CAP stating how it will ensure that all future contracts contain the appropriate provisions.

In its response to the Draft Report, La Coop provided a copy of a revised general provisions boilerplate for its subrecipient contracts in a September 18, 2009 email. The revised general provisions included the required provisions related to the Clean Air and Clean Water Acts for governmental and non-governmental organizations. However, none of the specific Executive Orders (EOs) required to be cited in the nondiscrimination and debarment and suspension provisions were included in the revised general provisions for both types of organizations.

In its response to the Final Report, La Coop provided copies of a September 18, 2009 cover letter sent to CET to revise the existing subcontract and a revised subcontract which now cites the EOs required in the debarment and suspension provisions for a non-governmental organization. La Coop states that unilateral modifications have been executed for its subcontractors in order to add the required provisions. However, from our review of the revised CET subcontract, La Coop's did not cite EO 11246, as amended by EO 11373 as required for the nondiscrimination provision. Furthermore, a

revised contract was provided that demonstrates that the contracts of all non-governmental organizations were revised but no revised contract was provided to substantiate that the governmental subcontract with ETR was appropriately revised. Based on its response, we consider this finding unresolved. Until La Coop provides CRO with adequate documentation reflecting that both types of subcontracts (governmental and non-governmental) have been appropriately revised to include the required EOs, this finding will remain open. •

CATS Number 90204: We found that La Coop does not conduct a physical inventory every two years. La Coop maintains an ongoing list of equipment that is periodically updated by La Coop's Fiscal Officer and its subcontracted CPA firm. La Coop could not recall the last time a physical inventory was taken. As a result, the inventory of equipment has not been reconciled with equipment records. In addition, we found that the list of equipment does not include the following required data fields: serial number, funding source of equipment, title holder, percentage of federal participation, location of equipment, condition of equipment, and ultimate disposition. We recommended that La Coop provide CRO with a CAP including a timeline for conducting an equipment inventory and reconciling the results with its equipment records. We also recommended that La Coop's inventory record be revised to include all required data fields as indicated above. Finally, we recommended that La Coop provide CRO with a copy of the inventory when it is completed.

In response to the Draft Report, La Coop stated that it would conduct an equipment inventory and reconcile the results with its equipment records. La Coop provided CRO an inventory list, dated August 31, 2009, in a September 18, 2009 email. This list did not include the required information on the acquisition date, per unit cost at acquisition, and the percentage of federal participation for each item listed. The State concluded that La Coop must provide a revised inventory list that includes all required data fields or an appropriate justification why this information is not necessary.

In its response to the Final Report, La Coop provided its revised inventory list to include the remaining data fields but deleted the required percentage of Federal participation data field and replaced it with three new fields identifying the portion of the total cost charged to California Department of Community Services Development (CSD), DOL, and EDD and a unit acquisition cost field. However, this process does not account for equipment costs charged to other federal sources not listed in the three funding sources above. We recommend that La Coop revise its inventory list to include the percentage of federal participation for all equipment purchased. Until then, this finding will remain open.

Mr. Marco Lizarraga

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December 10, 2009

Please extend again our appreciation to your staff for their cooperation and assistance to resolve these findings. We look forward to visiting La Coop in the near future. If you have any questions regarding this review or any other review, please call (916) 654-1292.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: David Davis, MIC 50
Mike McCann, Chairperson
Jackie Wolfe, MIC 50